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ABSTRACT

Written by a college financial aid administrator, this booklet is intended to help parents of younger children plan and prepare for the financial aspects of college education. After an introductory chapter, Chapter II lists current and projected (year 2000) costs at the most expensive colleges and at New York City colleges. Chapter III presents the college perspective on costs, noting decreased federal and state student aid and mounting labor costs. Chapter IV offers tools for determining financial need including a worksheet for determining parents' expected contribution and various associated tables, and Chapter V offers a sample case study. Chapter VI provides a chart to help parents plan their yearly savings and a discussion of such savings vehicles as savings bonds, life insurance, bank certificates of deposit, and money market accounts. Chapter VII presents a worksheet to help families plan their savings/investments, while Chapter VIII reviews current financial aid programs including the Pell Grant program, federal campus-based programs, New York State aid, institutional aid, loans, and payment plans. Finally, Chapter IX provides figures showing the economic return of a college education; Chapter X looks at alternate means of financing college (e.g., prepayment programs); and Chapter XI offers additional tips such as establishing an individual retirement account. (DB)

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Planning Makes College Possible

Jean Belmont
September 1991

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CHAPTER I
INTRODUCTION

It is an American tradition that all academically qualified students should have access to a quality education at a post secondary institution of their choice. It has also been a tradition that parents and students pay their fair share of the cost of attending such an institution. However, costs at private colleges have escalated at such a rate and recent cutbacks in financial aid have been so severe that students now find that they no longer have a choice of institution.

Over the past ten years we have seen State Colleges which should be available to all students, become much more selective in their admissions policies since students who are the brightest with the highest SAT scores are looking for a less expensive way to complete their education.

Taxpayer support for financial aid is dwindling. President Bush has indicated that he wishes to be known as the education president but we have not seen any action on the post-secondary level. Former President Reagan and his administration indicated that they felt federal student aid is excessive and that the responsibility for paying for college belongs in the home. Governor Cuomo of New York who has initiated a series of formidable programs to assist students to attend college, has cut the financial aid to both colleges and students severely in 1991.

Parents are willing to pay their fair share. i.e., to use a portion of their earnings and their savings to help their children achieve a college education. Most, recognizing the importance of a college education in relation to wages earned and self esteem are also willing incur some form of debt to see their children educated.

Students accept the responsibility to earn their fair share of college costs through summer employment, working during the academic school year and taking loans which must be repaid upon their graduation from college.

Working as a financial aid administrator, I feel that parents and students who are paying their fair share, and, in many cases, more than they can afford, are in the majority (over 95%).

Parents who have children near college age will hear of the cuts in federal funding and assume that their children will not be able to have a choice of the college they attend, that they will be

forced to pick a state or city college. But this option may not be open to all students since:

1. The city colleges could become much more selective in their admissions procedures. Since the best students will be applying to them, it is logical to assume that they will take only the best--a policy that would defeat the very purpose of these colleges: to make a college education available to all qualified students.

2. The state colleges which have now become more selective will become even more so. Right now some state colleges will not take students with less than an 85 average from high school.

3. The Mid-priced private colleges have continued to put aside more money for financial aid and have contacted private sources of funding, such as corporations and foundations to try to meet financial need. However this is becoming much more difficult.

4. The large, more expensive colleges will become available only to the rich. These colleges have much private money to give to students in the form of grants but I do not think they have enough to offer a poor family to pay all college expenses without any government financial aid.

5. Possibly state and city colleges will raise prices since many of the brighter students will come from middle to high income families and can afford to pay for college.

6. Only those parents who have planned well financially will have the funds available to send their children to college.

In light of these possibilities, then, when is the best time to start planning for your child's education? A leading expert in the financial aid field suggests parents should be contacted at la maze classes to begin the financial preparation for their child to attend college. As extreme as that may sound, everyone will agree that it is never too early--or too late--to begin preparation. By the way there are several hospitals who do hand out brochures about planning for a child's college to all patients in the maternity wards.

As a financial aid administrator I have seen the federal government make cutbacks that have made students who have received student loans for their first two years of college now be ineligible for

these loans and possibly unable to complete their education. As a financial aid administrator I have been very frustrated by the federal cutbacks and this is the reason I have put together this information for parents who have younger children.

Since we do not know what the future will hold, it is better to be prepared than to find when your child reaches college age, he/she will not be able to attend because the money is not available.

CHAPTER II
COLLEGE COSTS

Listed below you will find the tuition charges at the most expensive colleges as well as a sample of the local colleges for 1991-92. Analysts expect that tuition will rise approximately 10% a year (surveys indicate between 8-12%) at most private colleges. If you multiply the tuition at the college of your choose by 3.45 you will get the approximate cost (if tuition is increased by 10%/Year) for the year 2000. This cost may appear prohibitive but remember that the salaries of families will also increase as shown by the chart in chapter V. Chapter III will clarify for parents why college costs are high and outline what the colleges are accomplishing in their quest to keep costs within reason and at the same time provide a quality product.

What exactly is involved in the total cost of attending college? Tuition, fees, room and board (even if the student resides at home there is an allowance for room and board), transportation, books, and personal expenses are included in the total cost of attendance. The cost of books will vary depending on the course of study (for example, if a student is studying to be an engineer some expensive equipment may be needed which will make the cost of books and supplies higher than for a student studying to be a teacher). Transportation will vary depending on whether the student is a commuter student or resides on campus and goes home only 2 or 3 times a year.

If you look at the cost of attending a mid-priced college with a cost for tuition and room and board of about $16,800 for 1991-92 and divide the cost by the 200 days that the student is enrolled in school the cost is $84.00 per day. Certainly a modest cost when you consider the student is receiving room, board and a fine education as well as experiencing campus life and learning to be independent for less than the cost of room alone at a moderately priced hotel.

THE MOST EXPENSIVE SCHOOLS
FOUR-YEAR COLLEGES WITH HIGHEST FIXED COSTS FOR RESIDENTS 1991-92

COLLEGE	TUITION & FEES	ROOM & BOARD	YEAR 2000 TUITION*
Bard College	17,180	5,600	40,883
Barnard College	15,874	6,900	38,115
Bennington College	19,440	6,200	47,298
Boston U.	15,950	6,320	28,295
Brandeis	16,484	6,250	38,899
Brown	23,630	5,319	41,521
California Inst. of Tech	16,349	5,363	36,415
Columbia University	17,891	8,519	39,020
Dartmouth	17,795	5,160	40,292
Harvard and Radcliffe	18,180	5,520	42,126
Mass. Institute of Tech	18,920	5,330	40,710
Northwestern U.	14,370	4,827	38,057
Sarah Lawrence	16,750	6,400	39,071
Stanford U.	15,102	6,160	38,668
Tufts U.	26,863	4,200	38,675
Wesleyan U.	19,690	7,900	39,227
Yale	16,300	5,900	39,123

LOCAL COLLEGES

COLLEGE	1991-92 TUITION AND FEES	PROJECTED YEAR 2000 TUITION & FEES
ADELPHI	$10,420	$21,977
COLUMBIA	17,891	39,020
FORDHAM	13,950	23,978
HOFSTRA	11,000	21,804
C.W. POST (LIU)	10,010	23,719
SOUTHAMPTON (LIU)	10,039	24,012
MANHATTAN COLLEGE	10,850	21,735
MARYMOUNT MANHATTAN	9,410	20,355
MOLLOY	8,900	16,733
N.Y. INST. OF TECH.	8,000	17,216
NEW YORK U.	15,640	33,983
POLYTECHNIC U.	14,000	32,223
ST. JOHNS	7,150	17,940
YESHIVA U.	13,645	25,703

Most educators expect tuition to increase between 8-12% per year for the rest of the decade.

Why are colleges charging what seem to be exorbitant rates? What can you as parents do to prepare for college?

CHAPTER III
THE COLLEGE VIEW OF COSTS

Each year the Board of Trustees, the President of the College and key administrators meet to decide on the tuition costs for the next academic year. Much discussion and research on budgets, deferred expenses, salaries and capital expenditures is held and a decision reached. Naturally, the College would prefer to hold the line on tuition but keeping a quality teaching staff, "state of the art" research and computer facilities, modern dormitories, prope student to faculty ratio is necessary and costly. The quality of life for students (housing, special programs, campus enrichment activities) can be lowered when an institution keeps tuition "artificially" low. Students pay more for college these days but they also get more than has any other generation of students: better instruction, better equipment, better housing and better extracurricular offerings.

As we all know, state and city colleges are heavily subsidized by the government and this is why they can keep tuition low. As high as tuition and fees at private institutions are, they represent only a portion--often around 50% and frequently less than half--of what an institution has to pay out to provide students with their education. Public institutions receive approximately 15% of their income from tuition, while private institutions receive approximately 40% of their income from tuition. Colleges and universities make up the difference with income from government (federal, state, local), private sources (gifts, grants, contracts), endowment income, and other sources.

Colleges and Universities are still trying to compensate for faculty members' losses in real income. From the early 1970s to 1980 as expenses over which higher education had no control skyrocketed, colleges and universities balanced their budgets primarily by holding down faculty salary raises--costs the institutions could control--to rates considerably below inflation. As a result, faculty members lost more than a fifth of their purchasing power by the early 1980s. Because of this the colleges and universities have chosen to increase faculty salaries at catch-up rates that exceed increases in Consumer Price Index, that raise overall costs and that lead to higher tuitions.

Overall inflation increases have become relatively modest, but certain specific cost factors have soared. Colleges are energy-intensive and labor intensive. In addition costs of books and

periodicals used in higher education have increased by almost 150% during the last ten years; supplies and materials increased by more than 120% , the cost of outside contractors has doubled and the cost of replacing outdated equipment also have doubled.

In the past much advanced equipment was purchased by higher education institutions under federal research grants but federal monies have dropped substantially in the last 20 years. Colleges and universities are faced with financing an increasing share of their own research and purchasing their own new equipment.

Because colleges and universities are labor intensive, they pay high employment taxes in relation to their total revenues. In fact employment taxes that campuses pay might well exceed the total employment taxes plus income taxes paid by less labor intensive firms that have ways to shelter their income.

Many campuses have facilities that are two to three decades old and in need of substantial repair and renovation. Energy conservation measures and retrofitting require capital up front. Implementing government-mandated requirements also has necessitated investments to provide access for the handicapped, for example. Practically no outside funds have been available to educational institutions to cover such costs.

Colleges as mentioned before, have been cutting costs for years and have discovered that this is no longer an option. Most trustees, presidents and administrators wish to raise revenue from other sources, but they are being stymied by the following:

A. Because of the shortfalls in federal and state student aid since 1980, federal student aid (not including stafford loans) has decreased six percent in constant dollars. Many colleges and universities have had to allocate a greater percentage of their own operating budgets as aid to students; in fact financial aid is one of the most rapidly growing expenses for independent colleges and universities.

B. Private gifts have increased substantially but they still account for less than six percent of total revenues.

If the new tax laws reducing marginal tax rates and increasing the effective cost of giving to colleges have an adverse effect on private donations, financial pressures on colleges will intensify.

In addition endowment growth has not been fast enough to keep pace with both enrollment growth and cost inflation.

Faced with these financial facts of lift, college and university officials have been forced not only to raise tuitions but also to price room and board and books and other student-related fees and services on a basis that is closer to cost-recovery than it ever

has been before.
So trustees and presidents already are doing something about tuition: By maximizing income from sources other than students, colleges and universities are assuring that no student pays the real price of an education--and this is true even for students who pay full tuition without receiving financial aid or scholarship. Considering that about half of all students do receive some sort of grant or loan, this means that their out of pocket educational expenses represent a relatively small slice of the true bill.

Still it is undeniable that the tuition bite is a large and painful one for most families. Recognizing this many colleges and universities offer a wide range of financial programs that can make paying for a college education manageable:

A. Students who excel academically are given scholarships

B. Some individual institutions are offering parents a plan to invest a modest sum at birth which will grow and help defray college costs.

C. Some colleges are using tax-exempt revenue bonds to finance low interest rate loans for parents and students. Some of these plans are open to families in a wide range of income brackets and allow long-term payback period. Financing tuition and other college costs becomes like financing a mortgage.

The point is that colleges and universities stand ready to help parents and students directly and to point them to other agencies that can offer additional assistance. Counselors and financial aid officers are the best source of information.

CHAPTER IV
DETERMINING FINANCIAL NEED

In the northeastern section of the United States the College Scholarship Service is the most widely used service to determine a family's financial need.

To assist you, as parents to plan ahead the College Scholarship Service has developed a worksheet that will give you some idea of what your family might be expected to contribute toward college expenses. Once your family contribution is estimated, you can estimate your financial need by subtracting the estimated family contribution from the total cost of the college you wish your child to attend. The total cost of college includes tuition, fees, room, board, transportation, books, and personal expenses. These costs are listed in the college catalog. There are some scholarships available which are not based on financial need but on the whole most financial aid is based on need. Most colleges will try to fill complete need with different forms of financial aid.

A sample cost of attendance for a mid-priced private college for the 1991-92 academic year may appear as follows:

	Commuter	Resident
Tuition & Fees	$10850	$10850
Room and Board	1800	5800
Books	500	500
Transportation	800	500
Personal Expenses	1000	1000
Total	$14,950	$18,650

As you can see the tuition and fees remain the same whether the student is a resident or commuter. The allowance for room and board for a commuter student is less since the student is living at home. The allowance for a resident is the actual cost of room and board for the student at the college. Books and personal expenses are the same for both residents and commuters. The cost of transportation is determined for a commuter on the actual cost

of public transportation for the majority of the students. The resident cost of transportation considers that the student will only be going home for a weekend occasionally or for vacation periods.

The estimates that you come up with on the sheet below will be useful for planning purposes. The actual needs analysis performed by CSS is based on more detailed and specific information. The colleges may also adjust the figures when they consider special family circumstances.

The following table provided by the College Scholarship Service shows the approximate amount that parents in different financial situations were expected to contribute to their children's college expenses for the 1991-92 year. The figures apply to a two-parent family, with one parent employed. The parents claim the standard deduction on their federal tax return, one child is to attend college in 1991-92 and there are no unusual circumstances.

A

ESTIMATED PARENTS' CONTRIBUTION
FOR FAMILIES WITH NET ASSETS OF $20,000
BASED ON 1990 INCOME BEFORE TAXES

FAMILY SIZE	3	4	5	6
1990 INCOME BEFORE TAXES:				
$ 8,000	$ 0	$ 0	$ 0	$ 0
16,000	0	0	0	0
24,000	1,271	684	134	0
32,000	2,673	1,977	1,420	798
40,000	4,686	3,679	2,869	2,107
48,000	7,044	5,979	4,981	3,856
56,000	9,364	8,299	7,309	6,174
64,000	11,771	10,706	9,716	8,580

ESTIMATED PARENTS' CONTRIBUTION
FOR FAMILIES WITH NET ASSETS OF $40,000
BASED ON 1990 INCOME BEFORE TAXES

FAMILY SIZE	3	4	5	6
1990 INCOME BEFORE TAXES:				
$ 8,000	$ 0	$ 0	$ 0	$ 0
12,000	0	0	0	0
16,000	317	0	0	0
24,000	1,538	981	459	0
32,000	2,939	2,240	1,679	1,089
40,000	5,005	3,951	3,130	2,364
48,000	7,371	6,606	5,308	4,149
56,000	9,691	8,626	7,636	6,501
64,000	12,098	11,033	10043	8,907

ESTIMATED PARENTS' CONTRIBUTION
FOR FAMILIES WITH NET ASSETS OF $60,000
BASED ON 1990 INCOME BEFORE TAXES

FAMILY SIZE	3	4	5	6
1990 INCOME BEFORE TAXES:				
$ 8,000	$ 0	$ 0	$ 0	$ 0
16,000	845	288	0	0
24,000	2,087	1,509	987	397
32,000	3,727	2,901	2,247	1,617
40,000	6,133	4,943	3,962	3,044
48,000	8,499	7,434	6,436	5,175
56,000	10,819	9,754	8,764	7,629
64,000	13,226	12,161	11,171	10,035

ESTIMATED PARENTS' CONTRIBUTION
FOR FAMILIES WITH NET ASSETS OF $80,000
BASED ON 1989 INCOME BEFORE TAXES

FAMILY SIZE	3	4	5	6
1990 INCOME BEFORE TAXES:				
$ 8,000	$ 34	$ 0	$ 0	$ 0
16,000	1,373	816	294	0
24,000	2,722	2,053	1,515	925
32,000	4,665	3,682	2,909	2,177
40,000	7,261	6,071	4,956	3,849
48,000	9,627	8,562	7,564	6,303
56,000	11,947	10,882	9,892	8,757
64,000	14,354	13,289	12,299	11,163

Many families do not fall into the standard categories as listed above. By using the worksheet prepared by the College Scholarship Service as outlined below. **You must use the tables below to complete the items on the worksheets.** This estimate is for the college academic year 1991-92.

TABLE FOR ITEM 11:

TABLE FOR STANDARD MAINTENANCE ALLOWANCE (ITEM 11)

FAMILY SIZE INCLUDING APPLICANT	NUMBER OF FAMILY MEMBERS IN COLLEGE 1	2	3	4	5
2	$ 9,700	$ 8050			
3	12,090	10,430	$ 8,780		
4	14,930	13,270	11,610	9,960	
5	17,610	15,960	14,300	12,650	9,830
6	20,600	18,940	17,290	15,630	13,980

EACH ADDITIONAL FAMILY MEMBER +2,330

TABLE FOR ITEM F:

TABLE FOR ASSET PROTECTION ALLOWANCE (ITEM F)

AGE	TWO-PARENT FAMILY	ONE-PARENT FAMILY
39 OR LESS	$28,000	$20,600
40-44	31,600	23,600
45-49	35,900	25,700
50-54	41,300	29,000
55-59	47,900	33,000
60-64	56,300	37,800
65 OR MORE	62,400	41,300

TABLE FOR ITEM 14:

TABLE FOR BUSINESS OR FARM ADJUSTMENTS (ITEM 14)

NET WORTH (NW)	ADJUSTMENT RATE
LESS THAN $1	$0
$1 - $70,000	40% OF NW
$70,001-$210,000	$28,000 PLUS 50% OF NW OVER $70,000
$210,001-$345,000	$98,000 PLUS 60% OF NW OVER $210,000
$345,001 OR MORE	$179,000 PLUS 100% OF NW OVER $345,000

TABLE FOR ITEM H:

TABLE FOR INCOME SUPPLEMENT FROM ASSETS WHEN G IS NEGATIVE
(WHEN G IS $0 OR MORE, USE 12%) (ITEM H)

IF AVAILABLE INCOME (D) IS:	USE
$ 1,333 OR LESS	6%
$ 1,334 - $4,000	5%
$ 4,001 - $6,667	4%
$ 6,668 - $9,333	3%
$ 9,334 - $12,000	2%
$12,001 - $14,667	1%
$14,668 OR MORE	0%

TABLE FOR ITEM J:

TABLE FOR PARENTS' EXPECTED CONTRIBUTION (ITEM J)

ADJUSTED AVAILABLE INCOME (ITEM I)	TOTAL PARENTS' CONTRIBUTION
LESS THAN $-3,409	$-750
$-3,409 TO 8,700	22% OF AAI
$ 8,701 TO 10,900	$1,914 + 25% OF AAI OVER $8,700
$10,901 TO 13,100	$2,464 + 29% OF AAI OVER $10,900
$13,101 TO 15,300	$3,102 + 34% OF AAI OVER $12,500
$14,601 TO 16,700	$3,674 + 40% OF AAI OVER $14,600
$16,701 OR MORE	$4,514 + 47% OF AAI OVER $16,700

WORKSHEET FOR PARENTS' EXPECTED CONTRIBUTION

	PARENTS' EST.
A. 1989 INCOME	
1. Father's yearly wages, salaries, tips and other compensation	_____
2. Mother's yearly wages, salaries, tips and other compensation	_____
3. All other income of mother and father (dividends, interest, social security, pensions, welfare, child support etc.)Include IRA/Keogh payments,401K or 403B contributions	_____
4. IRS allowable adjustments to income (business expenses, interest penalties, alimony paid, etc.) Do NOT include IRA/Keogh payments.	_____
B. TOTAL INCOME (ADD 1,2,3,Subtract 4)	_____

EXPENSES

5. U.S. income tax parents expect to pay on 1989 income (not amount withheld from paycheck) _____

6. Social Security (FICA) tax (7.51% times each salary to maximum of $3,605) _____

7. State and other taxes (enter 8% of B) _____

8. Medical and dental expenses not covered by insurance (include insurance premiums) in excess of 5% of B. _____

9. Elementary and secondary school tuition paid for other dependents to a maximum of $3980 per child. _____

10. Employment allowance. If two-parent family and both parents work, allow 35% of lower salary to a maximum of $2,200. If one-parent family, allow 35% of salary to a maximum of $2,200. No allowance for a 2-parent family if only one parent works. _____

211. Standard maintenance allowance(see table 11) _____

C. **TOTAL ALLOWANCES AGAINST INCOME** (ADD 5, 6,7,8,9,10,11) _____

D. **AVAILABLE INCOME** (SUBTRACT C FROM B) _____

ASSETS

12. Home equity (total estimated value of your home on the current market minus any unpaid balance on your mortgage) _____

13. Other real estate equity (value minus unpaid balance on our mortgage) _____

14. Business or farm (figure total value minus indebtedness and take percentage shown in table). If your family is only part owner of farm or business, list only your share of net value. _____

15. Cash, savings, and checking accounts _____

16. Other investments (current net value) _____

E. **TOTAL ASSETS** (ADD 12,13,14,15,16) _____

DEDUCTIONS

F. **ASSET PROTECTION ALLOWANCE** (SEE TABLE FOR F) _____

G. **REMAINING ASSETS** (SUBTRACT F FROM E) _____

H. **INCOME SUPPLEMENT FROM ASSETS** (MULTIPLY G BY 12% IF G IS $0 OR MORE. IF G IS NEGATIVE, USE CONVERSION PERCENTAGE FROM TABLE FOR H) _____

I. **ADJUSTED AVAILABLE INCOME** (ADD D AND H) _____

J. **PARENTS EXPECTED CONTRIBUTION** (MULTIPLY I BY TAXATION RATE AMOUNT GIVEN IN TABLE FOR J) _____

K. **PARENTS' EXPECTED CONTRIBUTION IF MORE THAN ONE FAMILY MEMBER IS IN COLLEGE** (DIVIDE J BY NUMBER OF FAMILY MEMBERS IN COLLEGE AT LEAST HALF TIME) _____

STUDENT'S EXPECTED CONTRIBUTION

Students, too, are expected to contribute toward college costs -- from savings, part-time employment, and special benefits they receive such as social security or veteran's benefits. Use the worksheet below to help calculate what the student will be expected to pay. If you are applying for financial aid you will be expected to contribute at least $700 from earnings. If you are unable to earn that much money from employment, you should let the financial aid administrator know.

STUDENT'S EXPECTED CONTRIBUTION WORKSHEET

L. **STUDENT'S 1989 INCOME**

17. Student's yearly wages, salaries, tips, and other compensation _____

18. Spouse's yearly wages, salaries, tips and other compensation _____

19. All other income of student(dividends, interest untaxed income, and benefits) _____

M. **TOTAL INCOME** (ADD 17, 18 AND 19) _____

ALLOWANCES

20. U.S. income tax student (and spouse) to pay on 1989 income (not amount withheld from paychecks) _____

21. State and other taxes (enter 4% of M) _____

22. Social Security (FICA) tax (7.51% times salary of student and spouse to maximum of $3,605 per person)

N. TOTAL ALLOWANCES AGAINST STUDENT'S INCOME (ADD 20, 21 AND 22) _____

O. AVAILABLE INCOME (SUBTRACT N FROM M) _____

RESOURCES

23. Contribution from income (Enter the greater of 70% times available income from line O or $700 for the freshman year--$900 for any other year.) _____

24. Contribution from assets (multiply the total value of savings and other assets--such as stocks and bonds--by 35%) _____

25. Other gifts and scholarships already received _____

Q. TOTAL STUDENT RESOURCES (ADD 23,24, AND 25) _____

TOTAL FAMILY CONTRIBUTION -Transfer figures from above worksheets to determine total family contribution.

J. PARENTS' EXPECTED CONTRIBUTION (USE FIGURE FOR K INSTEAD OF J IF THERE IS MORE THAN ONE FAMILY MEMBER IN COLLEGE) _____

Q. STUDENT'S EXPECTED CONTRIBUTION FROM RESOURCES _____

R. TOTAL FAMILY CONTRIBUTION (ADD J AND Q) _____

STUDENT NEED

S.	TOTAL COLLEGE EXPENSE BUDGET	_____
Q.	TOTAL FAMILY CONTRIBUTION	_____
T.	STUDENT NEED (SUBTRACT R FROM S)	_____

This student need is the amount that the College will attempt to fill with various sources of financial aid.

CHAPTER V
IT IS EASIER THAN YOU MAY THINK

The case below is an updated (1990-91) version of an article which appeared in the November 1986 American Association for Higher Education Bulletin, Karl E. Case's, "The Office of Family Finance and Planning" (Formerly the Financial Aid Office) which shows how financial planning for college is not as difficult as might be expected.

The Federal Government during reauthorization of the federal financial aid has put into law a new method of needs analysis called Congressional Methodology (CM) which changed the method by which the student's icome and assets are treated. The Student contribution is based on the previous year's income. This can hurt the student who has worked through high school to save to go to college. However CM has reinforced the College's Financial Aid Administrator's ability to use professional judgment to change items on the FAF if appropriate and documented.

When you ask yourself whether you can afford a house, you immediately think in a 25-30 year time frame; the first thing you want to know is the mortgage rate and the monthly payment. Car dealers have switches from direct rebates and discounts to sweet financing deals because they find them more effective. When you get right down to it, higher education is probably the only industry in the U.S. that sells a big ticket item without offering across-the-board assistance with financing. The author's argument is that colleges, led by their financial aid directors, have the opportunity to plug a very big hole, basic help with financial planning can be done easily and cheaply.

CURRENT LOGIC OF THE FAF--example. Family J.B. Smith (age 45) assistant Manager with Utility Company on Long Island, New York. His wife also works. From a needs analysis standpoint, J.B. is an easy case. His income is straight salary, with some savings and some interest in bonds. He lives in a home worth $150,000, that he bought in 1980 for $74,000. He has taken a second mortgage two years ago and presently owes a total of $89,000. He has a nice pension accumulation of $25,000 in an IRA, but that won't be

touched, yet. He has $10,000 invested in stocks and $5000 in the bank.

His daughter worked during the year and earned $1200. She had $52 in interest and saved $1000 over the last several years. She files an income tax form 1040EZ.

Mr. Smith has net assets of $76,000 minus an asset protection allowance (APA) of $36,500, or $39,500. That produces an income supplement of $4740. On the income side there is nothing complicated: $55,000 plus interest, dividends and capital gains, minus taxes leaves $38,881 or $3240 per month.

To calculate his parent contribution (PC), we deduct the standard maintenance allowance (SMA) of $14,260, add the income supplement from assets of $4740, and head for the CM'S tax tables. Result: J.B. Smith's Parental Contribution will be $9,313.

His daughter will be expected to contribute $763 from earnings to her education. Her assets are not taken into consideration since a simplified version of the CM will be used, since she files a 1040 EZ income tax form and does not make over $15,000 per year.

Therefore the total family contribution will be the Parents contribution of $9,313 plus the student contribution of $763 for a total of $10,076.

When J. B. Smith receives this information he will head directly for the Financial Aid Office.

"You've got to be putting me on! You expect me to pay eleven thousand to send my kid to this college? You've got to be kidding. You think because I earn $55,000, I'm rich. You obviously don't know how much it takes to live around here! By the way, I read in your literature that you 'meet need'. I've got half a notion to sue you. Here's a list of the bills I have to pay: It leaves $460 a month and my IRA contribution is $333 a month.

J.B. Smith
FAMILY PROFILE
(4 PERSONS, 1 IN COLLEGE)

INCOME			ASSETS	
TOTAL INCOME	$56,245		HOME VALUE	$150,000
TAXES			MORTGAGE	- 89,000
FICA	- 3,605		NET EQUITY	61,000
FEDERAL	- 9,260		IRA	25,000 *
STATE/LOCAL	- 4,499		STOCK/BOND	10,000
			SAVINGS	5,000
				76,000
AFTER TAX INCOME		$38,881	ASSET PROTECT.	-36,500
EDUCATION EXPENSE ALL.		2,450		
EMPLOYMENT ALLOWANCE		0		39,500
SMA		14,260	ASSET CONVERSION	x.12
AVAILABLE INCOME		$22,171	INCOME SUPPLEMENT	4,740
AVAILABLE INCOME		$22,171		
INCOME SUPPLEMENT		4,740		
		$26,911		

MULTIPLY $26,911 BY ASSESSMENT RATE LEAVES A TOTAL PC OF $9313
*PREVIOUS YEARS' IRA CONTRIBUTIONS ARE NOT CONSIDERED IN CM

PARENTAL CONTRIBUTION $9,313

STUDENT CONTRIBUTION IS CALCULATED AT $763

TOTAL FAMILY CONTRIBUTION IS $10,076

MONTHLY EXPENSES

MORTGAGE PAYMENT ($89,000 @ 12.5%)	$920.00
ELECTRICITY	110.00
CAR PAYMENT	347.00
FOOD	700.00
HEAT	160.00
PHONE	65.00
CAR INSURANCE	90.00
HOMEOWNERS' INSURANCE	84.00
HEALTH INSURANCE	125.00
LIFE INSURANCE	179.00
TOTAL	$2,780.00

MONTHLY AFTER TAX INCOME: $3240.00
PC/12 = $839.66

INCOME NET OF EXPENSES = $460.00
IRA CONTRIBUTION: $333 ($4000/YR)

Mr. Smith argues re: the standard maintenance allowance of $14,260, saying that if he sold his house he couldn't get an apartment and heat for that amount.

The problems are twofold:

1. The conversation doesn't take place until J.B. looks for help from the college six months before classes start: and

2. The whole conversation is confined to this year.

If started eight years earlier, the conversation might have sounded like this:

"Your daughter is now in the fourth grade and she is clearly brilliant. She is going to want to go to college and you are going to have to pay a good part of the freight. Looking over your finances, I would guess and this must be a rough guess, you'll have to come up with about $10,000 a year for the four years she is in school, if she wants to go to a private college. If she goes to public it will probably be less but it's hard to tell, states are getting squeezed.

"I know that you're not rich and that $40,000 sounds like a fortune but how does $192 a month sound to you? That's 30% less than the payment on your Toyota and it's about 6.5% of your take home pay. If you delay, college will cost you a third of your income. Also with a bit of help we can easily get it down to $168 a month even with the new tax law changes."

STARTING EIGHT YEARS EARLY

ASSUMPTIONS: INTEREST ON SAVINGS 5.3% (8% TAXABLE)
PARENTS CAN BORROW AT 12.4% (8.25% AFTER TAX)

YEAR	MONTHLY PAYMENT	ANNUAL PAYMENT	COLLEGE PAYMENT	INTEREST	BALANCE
1	192	2304	-	122.11	2426.11
2	192	2304	-	250.69	4980.81
3	192	2304	-	386.09	7670.90
4	192	2304	-	528.67	10503.57
5	192	2304	-	678.80	13486.37
6	192	2304	-	836.88	16627.26
7	192	2304	-	1003.36	19934.62
8	192	2304	-	1178.65	23417.26
9COLLEGE	192	2304	10,000	833.23	16554.49
10COLLEGE	192	2304	10,000	469.50	9327.99
11COLLEGE	192	2304	10,000	86.49	1718.49
12COLLEGE	192	2304	10,000	- 493.14	- 6470.65
13	192	2304	-	- 333.33	- 4499.99
14	192	2304	-	- 175.67	- 2371.66
15	197	2371	- -	0	

WAYS TO PAY FOR COLLEGE
ASSUMPTIONS: AFTER TAX INCOME $38,881 ($3240 MONTHLY)
PC 90-91 9,313
HOUSEHOLD CAN BORROW AT 12.4%
HOUSEHOLD CAN INVEST AT 8% TAXABLE OR
5.3% TAX FREE

	MONTHLY PAYMENTS	PAYMENT AS % OF INCOME	YEARS OVER WHICH FINANCED:		
			PRE COL.	DURING	POST
PAY OUT OF CURRENT INCOME	$833	28.2%	0	4	0
BORROW	$436	14.8%	0	4	10
SAVE & BORROW (SAVINGS ACCT)	$192	6.5%	8	4	3
SAVE AND BORROW (TRUST)	$168	5.7%	8	4	3

To explain the above chart there are three things you need to know: (1) If you pay over more years, your payment is lower; (2) If you decide to pay early, you will earn some interest to help; (3) Compound interest can yield surprisingly large gains--8% compounded annually doubles your money in nine years.
$192 a month can generate $40,000 if you start eight years early. I've assumed the person simply puts savings into a bond or CD at 8% taxable or 5.3% after tax. Table figures interest on the balance after the payment is made at 5.3%. At the end of eight years, the family has $23,417. That's a conservative figure; it only figures annual compounding. A good investor should be able to get more than 5.3%.

In the end this family has a $6500 loan at 12.4% paid off in three years. Clearly by accepting a bigger debt at the end the monthly payments would be lower.

The only difference between the $192 and the $168 is that it figures the interest on the savings at 8% instead of 5.3%. There are several ways to do that. The most common is to put the money in the child's name and have the interest taxed at the child's

rate (zero). That can be done with no legal help under the uniform gifts to minors act. You simply invest the money in the minor's name and act on his/her behalf until he/she reaches majority. This is unaffected by the new tax law. Under the new tax law if a child earns more than $1,000 interest the excess will be taxed at the parents' marginal rate until he/she is 14. Notice on above table: if you start saving when your child is 10 he/she won't be earning over $1,000 interest until he/she is 16 and thus will never have to pay any tax. To go from 28% of income down to 5.7% of income takes no legal help at all.

The following chart indicates inflation's effect on incomes since 1970. If you multiply the 1990 figure by 2.4 you will get an approximate salary needed in the year 2000 to be as well off.

INFLATION'S EFFECT ON INCOMES

IF YOU HAD THIS MUCH INCOME IN 1980	YOU NEEDED THIS MUCH TO BE AS WELL OFF IN 1990	YOU WILL NEED THIS MUCH (IF INFLATION RUNS AT SAME PACE) IN 2000
$ 10,676	$25,697	$61,672
16,188	39,188	94,051
22,552	55,941	134,258
34,349	87,708	210,499
59,855	148,658	356,827
73,171	188,689	452,853
86,036	204,795	491,508
98,356	280,417	673,000
221,677	493,574	1,184,577

*SOURCE: U.S. NEWS AND WORLD REPORT, JULY 14, 1980 (IN PART)

CHAPTER VI
SAVING FOR COLLEGE

You may wish to use the following chart to see how much you would have to save per year to send your child to the college of your choice.

I. From chapter 2 list the current tuition at the college of your choice

_____

II. Multiply the amount in I. by 4 which will give you the total for a four year education (undergraduate)

_____

III. Enter the number of years until your child will enter college.

_____

IV. Using the number of years from III., select the inflation factor which applies below. (We assume that college costs will increase 10% per year)

_____

YEARS	INFLATION FACTOR
2	1.2
3	1.33
4	1.46
5	1.61
6	1.77
8	2.14
9	2.36
10	2.59

Years	Inflation factor
11	2.85
12	3.13
13	3.45
14	3.79
15	4.18
16	4.60
17	5.05
18	5.56

V. Multiply the four year total in II. by the inflation factor in step IV.

TOTAL_____

VI. Estimate the investment return you can achieve after taxes.

The table below gives savings factors for 4%, 6% and 8%

YEARS UNTIL JUNIOR IN HIGH SCHOOL	4% RETURN	6% RETURN	8% RETURN
2	.49	.49	.48
4	.24	.23	.22
6	.15	.14	.14
8	.11	.10	.09
10	.08	.08	.07
12	.07	.06	.05
14	.05	.05	.04

Select a savings factor from above _____

VII. Multiply the savings factor from V. by the total from IV. This is the amount you would need to put aside each year for your child's education if you pay for it completely from savings. Financial aid will reduce the amount that you need.

*The above chart is based in part on "Can You Cope with College Costs", Consumer Reports June 1985, P. 345.

Listed below are several investments some of which are tax free or tax deferred and may be suggested for savings for college:

I. SAVINGS BONDS

EE U.S. Government Savings bonds pay a competitive variable interest which is tied to the Treasury index (the full rate is paid only when the bonds are held for at least five years). The rate changes once every six months. The guaranteed minimum is 6.9%.

EE Bonds are a secure investment since they are backed by the U.S. Government. They can be purchased at banks and savings and loan associations. They come in denominations starting with a face amount of $50 purchased for $25. There is no fee for purchase or redemption.

Savings bonds are not subject to state or local income tax. Federal income tax is due on the accumulated interest when the bonds are redeemed. If the bonds are bought in the child's name as sole owner (the parent can be beneficiary but not co-owner) some accountants have stated that an income tax may be filed in the child's name the first year the bonds are owned. Note on schedule A your intent to pay annually any tax due. No further returns must be filed, even if you buy additional bonds until the child actually owes some tax.

Keep a copy of the first income-tax. When the bonds are redeemed a 1099 will be sent to the IRA. The original tax return will document the fact that little or no tax is due.

II. ZERO COUPON BONDS

There are different types of zero bonds. One is the tax-deferred zero which has a call feature by the issuer. It can be called at any time. If the bond is called there is a premium price which the issuer must pay which is in their print material each year. The present rate is about 8% interest. A person would invest $165 now and it would be worth $1000 on maturity in the year 2015. If there is a dip in interest rates the value of the zero coupon bond will go up disproportionately.

III. LIFE INSURANCE

A. SINGLE PREMIUM ENDOWMENT: A man aged 43 could make a single premium payment of $50,000 and would be guaranteed a rate of return. In twenty years the policy would have a cash value of $132,701. The death benefit from the beginning is $255,820. If the interest rates get high the cash value will be even higher. A loan can be taken on this policy while still keeping the death benefit intact. You cannot add to an Endowment but you can take out an additional policy.

B. VARIABLE LIFE: There is a minimum amount that you can invest ($10,000). You choose where the money is invested. This policy guarantees your investment. You can make money but you cannot lose below the amount you invested.

C. TAX-DEFERRED ANNUITY-FIXED: Insurance company will tell you the percent per year your investment will earn and the earnings will be tax deferred. You can take interest from the policy but the interest will be taxable. If you withdraw money to use for college, this will also be taxable.

D. TAX-DEFERRED ANNUITY-VARIABLE: You choose where money is invested. You can make more money if the returns on chosen investments are high. However, you cannot lose below your investment. You must pay a surrender charge if you turn the policy in early. There is also an IRS penalty of 10% if the person is not 59 1/2.

IV. BANK CERTIFICATES OF DEPOSIT

CD'S range in maturity from seven days to five years or longer. Some have fixed income rates; others, periodically adjusted rates. Minimum prices range from $250 to $2500. Usually the rate of return reflects the current money market prices. CD's are an excellent way to set up an enforced savings program as the money cannot be withdrawn without penalty before maturity of the certificate.

V. MONEY MARKET ACCOUNTS

Offered by banks, money market funds, mutual funds, these are high yielding investments with good liquidity. Some bank money market accounts require a $2,500 minimum deposit. The interest rate can be as high as the bank wishes to establish. Money market accounts are particularly attractive because they are federally insured up to $100,000, allow for unlimited withdrawals at your local branch, and in most cases through automatic teller machines. Most offer limited check-writing privileges and permit additional deposits in any amount.

In contrast to Bank money market accounts, money market funds spread your investment across a variety of short-term commercial instruments. Yield fluctuates but is competitive with market rates. However, the funds are not federally insured. Because these accounts are short-term and diversified, they are relatively safe investments. Money market accounts are available in specific areas, i.e., Government securities which are tax free.

VI. U.S. TREASURY ISSUES

These are bills, notes or bonds with an excellent safety record that make them attractive to those with larger minimums to invest. They are quite liquid. 'T-Bills' as they are called, are available in varying maturities (3, 6,12 months); the smallest denomination is $10,000 with additional increments of $5,000 possible. Interest is taxed by the federal government but not by the state or city. 'Notes' come with longer terms (2 to 10 years) in denominations as small as $1,000 with semi-annual interest. 'Bonds' range in maturity from 10 to 30 years, on $1,000 minimum denominations. You can purchase treasury issues and request information about benefits and risks from your banker.

VII. PASSBOOK SAVINGS ACCOUNTS

This type of account is totally liquid; your money is available any time you want it. Because of the liquidity, interest rates are lower than in other types of investments.

VIII. NOW ACCOUNTS

This is simply a checking account that pays interest. Generally there is no monthly fee or per-check charge as long as you maintain the required minimum balance.

IX. STOCKS AND BONDS

Stocks are shares of ownership in a company. Bonds are debts the company owes. As a bondholder, you are lending the company money at a fixed rate of interest. Stockholders own equity in the company, which may or may not pay dividends. Generally, both are quite liquid, but neither stocks or bonds guarantee what price you'll get if you sell. The key attraction is income growth and capital growth--provided the company does well.

NEW TAX LAW IMPLICATIONS ON COLLEGE FINANCIAL PLANNING

Any unearned income over $500 (such as interest or dividends) if a child is under 14 is taxed at the parents' rate. If the child is over 14, the unearned income is taxed at the child's rate. In 1987-88 the parent loses the child as an exemption if the child uses the exemption.

Triple tax free bonds must be in trust if in the child's name. It is not a good idea to put these bonds in the student's name as the money invested then becomes the student's once he/she is 18.

If parents own a sole proprietorship, a child/spouse may be put on the payroll if he/she is employed by the company. Parent must pay FICA but a child/spouse is then eligible for an IRA.

A parent may refinance their home either through a home equity loan or a new mortgage up to the amount they originally paid for their house plus improvements and deduct the interest on their income taxes. If the parent has a student ready to attend college they may also borrow an additional amount to be used only for education and deduct the interest on their income taxes. Since the interest rates are so low this is an excellent means of financing a college education.

A child under 14 is allowed a $500 deduction on unearned income in 1988. $500 to $1000 is taxed at child's rate. Over $1000 is taxed at parents' rate.

CHAPTER VII
FINANCIAL PLANNING

How much can you save/invest each month?

Use the worksheet below to establish your discretionary income each month. It is necessary to complete these questions completely to have an accurate picture of your financial picture.

INCOME:

SALARY AND BONUSES	_____
INTEREST	_____
DIVIDENDS	_____
CAPITAL GAINS	_____
ALIMONY	_____
CHILD SUPPORT	_____
OTHER INCOME (RENTS,ROYALTIES, FEES)	_____
ADDITIONAL INCOME	_____
TOTAL MONTHLY INCOME	_____

EXPENSES

HOME

- MORTGAGE PAYMENTS/RENT _____
- HOME EQUITY LOANS _____
- HOME MAINTENANCE AND REPAIRS _____
- INSURANCE PREMIUMS _____
- PROPERTY TAXES _____
- GAS (COOKING, HEATING) _____
- ELECTRICITY _____
- OIL _____
- TELEPHONE _____

FOOD AND GROCERIES _____

LIFE INSURANCE

- HUSBAND _____
- WIFE _____
- CHILDREN _____

MEDICAL INSURANCE PREMIUMS _____

HEALTH CARE

- DOCTORS _____
- DENTISTS _____
- PRESCRIPTION DRUGS _____

CLOTHING

- PURCHASES _____
- CLEANING _____
- LAUNDRY _____

PERSONAL CARE (HAIRDRESSER, BARBER,ETC.) _____

EDUCATION (TUITION, ETC.) _____

AUTOMOBILE(S)
LOAN _____

INSURANCE _____

GASOLINE/OIL _____

MAINTENANCE _____

CHILD CARE _____

ALIMONY PAYMENTS _____

CHILD SUPPORT PAYMENTS _____

INSTALLMENT PAYMENTS _____

GIFTS AND DONATIONS _____

PROFESSIONAL DUES, SUBSCRIPTIONS, ETC. _____

VACATIONS _____

ENTERTAINMENT _____

PERSONAL ALLOWANCE _____

SAVINGS _____

INVESTMENTS _____

UNREIMBURSED BUSINESS EXPENSES _____

2ND-HOME EXPENSES _____

TOTAL MONTHLY EXPENSES _____

TOTAL MONTHLY INCOME _____

- TOTAL MONTHLY EXPENSES _____

= AMOUNT YOU CAN SAVE/INVEST PER MONTH _____

If you should arrive at a negative number for the amount you can save per month, you have reached a point where you must make a decision as to what you want for your future and for the future of your children. Where can you cut expenses? Where can you earn extra money? Is a part-time position available in the foreseeable future for the mother if she is now at home? Will the father receive a raise that can be put away? Will you get a tax refund that you can save? These are decisions to which you must come.

CHAPTER VIII
FINANCIAL AID AVAILABLE NOW

As mentioned in a previous chapter, the amount of financial aid is determined by the amount of need that a family has. This is determined by taking the total cost of attendance at the college of your choice and deducting the family contribution as determined by the FAF needs analysis. The remaining amount is the amount of financial need. The college will attempt to fill this financial need with several different sources of federal, state and the college's own financial aid.

Let us take the example of the cost of attendance from Chapter IV for a boarding student which amounts to $18,650 and let us take the family contribution from the case study in chapter V of $10,076.

	Cost of Attendance	$18,650
-	Family Contribution	10,076
	Need	8,574

The College would possibly offer:

College Grant	$3,500
Perkins Loan	1,000
Tuition Assistance Program	1,500
Work Study	1,000
Stafford Loan	1,574
Total Aid	8,574

Now remember that when we considered the total cost of attendance, it included such things as personal expenses, books and transportation. Usually a student will make enough during the summer before entering college to pay for their books. And, parents and/or students can usually pay for transportation and personal expenses on a weekly basis. So, you actually are interested in covering tuition, fees and room and board which total to $16,850. If we deduct the total aid received of $8574 from the $16,850, the actual cost to the family will be $8276.

Let us go through the financial aid process and the various kinds of aid available.

Students making application for financial aid must file a financial aid form (FAF) or a federal form for financial aid. Completion of these forms requires that the parents and/or student provide detailed information concerning income, assets, expenses and indebtedness. All four pages of the FAF must be completed entirely for a student to be considered for financial aid. The colleges will also request copies of federal income tax returns from the parent and/or student, as well as statements on non-taxable income and/or asset information.

Once the FAF is completed, it is forwarded to the College Scholarship Service (CSS), a financial needs analysis service located in Princeton, New Jersey. The student lists the colleges on the form and these institutions will receive a copy of the needs analysis report. An application fee is required and must be enclosed with the form when sent to CSS. The colleges use the needs analysis report as a guide to determine the student's financial need.

FAF's are available in December of the Student's senior year in high school and must be filed as soon as possible after January 1st for a student to receive prime consideration for financial aid. Each college has its own deadline and the college catalog should

be consulted for the required filing dates. (Some of the Ivy League colleges have deadline dates as early as January 5th)

The primary sources of aid are listed below:

I. PELL GRANT PROGRAM. The Pell Grant Program is a federally-funded entitlement aid program directly administered by the federal government. Its purpose is to provide all eligible students with a "floor" of financial aid to which other types of assistance may be added. Eligibility for Pell Grants is determined on the basis of a formula developed by the Department of Education. The formula is applied uniformly to all applicants. Colleges require that applicants for financial aid apply for the Pell Grant program annually by means of the FAF or the federal form for financial aid. A student may file for Pell Grant by checking the appropriate box on the FAF. By checking this item the student authorizes release of income information to the Pell Grant processor so that eligibility for Pell Grants might be determined and the student issued a Student Aid Report (SAR) directly from the Pell Grant processor.

When the student receives the SAR, all copies should be forwarded to the Financial Aid Office at the College the student wishes to attend. By checking the index number at the top of the SAR the college will know the amount of Pell Grant the student will receive at the college. The maximum award for 1991-92 may be $2400. The dollar value of the Pell grant will be determined and adjusted based on the student's status as full-time, three-quarter time or half-time.

II. FEDERAL CAMPUS BASED PROGRAMS.

A. SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG). A student is automatically considered for the federal Supplemental Educational Opportunity Grant Program when the college views the FAF. SEOG awards are made available to students based on financial need as determined by the review of the Financial Aid Form. Grants range between $100 and $4000 per year with the average grant being under $1000.

B. COLLEGE WORK-STUDY PROGRAM (CWSP). This program provides part-time jobs for needy students. The college determines eligibility for the program after the student files the FAF. Due to limitations in federal funding, students should make their desires known to the financial aid office. Positions under the college work study program are usually on campus or at off campus non-profit agencies.

C. PERKINS LOAN (NATIONAL DIRECT STUDENT LOAN). These are 5% loans with a maximum of $4500 the first two years in college. The college determines eligibility from the FAF. The funding in this program is limited so it's important to file the Financial Aid Form early.

III. NEW YORK STATE AID

A. THE TUITION ASSISTANCE PROGRAM (TAP). Full-time students who are New York State residents may be considered for TAP. The TAP application is now part of the Financial Aid Form or a separate TAP application becomes available in April each year. This award is based on New York State net taxable income. The awards range from $100 to $4025 at a private institutions for dependent students. At a state or city college the award cannot be greater than tuition. Family net taxable incomes of up to $50,000 are eligible for some award from TAP.

B. REGENTS SCHOLARSHIP PROGRAM. Regents Scholarship winners are notified by the state in the winter of their senior year in high school. The award is $250 per year and the student must file a TAP application to be eligible to receive this scholarship. These are not available in 1991-92.

C. APTS PROGRAM. Aid for New York residents attending a New York College part time. The aid is given by New York State directly to the college to be given out at its discretion to students who meet the requirements. The amount may not exceed tuition.

IV. INSTITUTIONAL AID

Colleges provide their own institutional funds to students in addition to state and federal funds. These funds are awarded both on need and/or merit. Scholarships are awarded based on academic achievement. Grants are available for certain activities, leadership, financial need. Check the college catalog to find out what funds are available and the requirements.

V. LOANS

A. STAFFORD STUDENT LOAN. These loans are processed through local banks, credit unions, and other lending institutions. Under this program, which is administered by the New York State Higher Education Services Corporation students who qualify (as shown by the Financial Aid Form) may borrow up to $2625 for the first and second year

in college and $4000 for the third and fourth year in college. The interest rate on these loans is currently 8%. Students who borrow under the GSL program are required to pay an origination fee which is deducted from the proceeds of the student loan itself at the time of loan receipt. The interest rate increases to 10% in the 5th year of repayment.

B. PLUS LOAN (PARENT LOAN FOR UNDERGRADUATE STUDENTS). A parent may borrow up to $4000 per year at a variable interest rate which cannot exceed 12%. The parent begins repayment 60 days after loan disbursement. Plus loans may not exceed the student's cost of attendance, less any financial aid.

VI. OTHER SOURCES OF FINANCIAL AID. Many unions and fraternal organizations offer awards to students based on merit and/or need. Some foundations also offer scholarships. Spending a couple of hours in your local library will prove an effective means of discovering outside sources of financial aid.

VII. PAYMENT PLANS. Most colleges paricipate in one or more payment plans where a parent may pay by the month. There is a one time small (about $40) fee for this service. A parent may pay up to the cost of attendance through this plan. The total amount you wish to pay is then divided into ten equal monthly payments. Usually you begin payment in May or June prior to the September when the student begins college.

CHAPTER IX
IS IT WORTH THE EFFORT

You bet it is! College students and their parents have made a decision to invest time and money to acquire specialized knowledge, thus making the student a more responsive person in a working situation. The investment you have made is in human capital and this is the reason employers are willing to pay college graduates higher salaries.

Graduates of the Class of 1990 at a mid-priced private college received starting salaries as follows:

Arts and Science:

Bio-Chemistry	$20,000 - $22,000
Biology	$22,000 - $28,000
Chemistry	$23,500
Liberal Arts	$21,000 - $34,000
Mathematics	$14,000 - $30,000
Physics	$25,000 - $35,900

Business:

Accounting	$25,000 - $34,500
C.I.S.	$18,000 - $30,000

Economics	$19,000 - $33,000
Finance	$29,000 - $33,000
Marketing	$24,000 - $26,000
Management	$18.000 - $29,000
Engineering:	
Chemical	$28,000 - $37,500
Civil	$27,000 - $35,000
Electrical	$22,000 - $42,000
Mechanical	$25,000 - $35,900
Education:	
Education	$6,500 - $23,500
Radiology & Health Science	$35,000 - $45,000

Data shows that college graduates earn 40% more than on college graduates throughout their lifetime. During downturns in the economy, unemployment is lowest among college graduates.

The tougher entrance requirements set by employers along with the fact that so many young people do go to college and earn at least a bachelors degree mean that a college education has become the first rung on the success ladder.

According to generally accepted estimates, the money invested in a college education results in something like a 10% annual return (because of the better paying jobs open to college graduates). In this sense the money spent on tuition and related costs is similar to the money you spend on a house: Not only do you get shelter (or, in the case of tuition, an education) but your investment appreciates so that eventually you get all of your money back with interest. Similarly, tuition might more properly be considered a long-term investment (as is a house) that must be financed over the long term.

Even if a college education were not required to get a good job and even if a college education did not pay for itself as an investment, it still would be worth the money because understanding history, art, science, philosophy and all the other disciplines that help explain the tapestry of the world and our place in it requires the systematic learning offered by higher education.

Without this understanding we might still be able to get good paying and interesting employment but life is more than money and work. Higher education helps us appreciate what this more is.

CHAPTER X
ALTERNATE MEANS OF FINANCING

At the 1986 meeting of the College Board, Robert A. Foose of Colby-Sawyer College discussed a simple tuition financing matrix which matches the timing of payments to the institutions with the source of funds used for the payment. This is also outlined in the NACUBO Monograph published in 1986. Along the top of the matrix are two categories: Early or accelerated and delayed. Down the side of the matrix the payment plans are split into two groups looking at the source of funds used to make the payments. The first would be from personal resources and the second borrowed. When a person inventories the payment plans provided by the college or University within this matrix it becomes possible to identify whether the institution under consideration has the appropriate range of options.

	ACCELERATED PAYMENTS	DELAYED PAYMENTS
PERSONAL FUNDS	INFREQUENTLY USED	FREQUENTLY USED
BORROWED FUNDS	INFREQUENTLY USED	FREQUENTLY USED

*Accelerated payments can be many years in advance or just prior to enrollment.

*Delayed payments can be over the course of a semester, a year or several years.

Under the accelerated payment plans using personal funds is the famous Duquesne Tuition Futures Plan which is the source of much controversy at present. In fact, I believe this plan is

not taking in new members presently. A consumer can prepay tuition at a discounted rate at any time prior to enrollment. For example a parent with a one-year old child could prepay that child's tuition at Duquesne at the present rate and avoid tuition increases. The institution of course must invest the money to insure a return which will equal the projected tuition rate. Duquesne presently has over 600 participants enrolled in the program with a total equity base of $4,000,000. An advantage to the college is that they have an early commitment from students who may have gone elsewhere.

Many colleges have a prepayment program where the tuition is prepaid at the time of enrollment to avoid tuition increases. The advantage of this is that parents can lock in the rate of tuition at the time of first enrollment. However, the parent also locks in his/her money which may be earning a better return if invested properly to offset the tuition increases. The advantage to the college is that the early commitment of financial resources probably improves the retention rates for the college. Parents should check out the penalties for failing to live up to a futures contract. What would happen if the student did not go to college or in the case of a prepayment plan what would happen if the student decided to leave college or transfer to another college. The college then has the responsibility to be sure the money is invested wisely to assure a return which will cover the projected tuition in increases.

Another method is the tuition gift certificates where an institution sells gift certificates covering all or part of future tuition to families of current or potential students. These may be purchased for a designated number of credit hours. If the person named on the certificate does not attend the institution, the certificate can generally be transferred to another student but cannot be withdrawn or cashed in.

In some states public institutions have developed a tuition futures program where the student may choose to attend any college within the state system rather than a particular college. The advantage to the student/parents is that the student has more choice in the college he/she will attend and can still lock in the current rate.

It is also expected that private institutions with shared characteristics will band together to offer tuition futures.

Another box of the matrix calls for accelerated payment plans using borrowed funds. The first thing that comes to mind would be the use of home equity loans to finance the prepayment. The new tax law which allows the deduction for home equity loan interest when the loan is used for educational purposes makes this an attractive plan to parents.

The last box of the matrix describes delayed payments with borrowed funds. The installment plans are by far the most commonly observed tuition payment alternatives. A parent signs with a tuition payment plan and begins payments to the plan the May or June before the student begins college. This is usually handled on a yearly basis. The parent borrows the amount for one year and repays over ten months. There is no interest charge and only a one-time fee. There is a company which allows repayment over 12 months if you sign up for four years in the program.

Many institutions are making long-term loans available from their own funds, through partnerships with local lenders, through providing their students access to commercial lenders, through consortia of institutions and through public efforts on a state by state basis.

These "Mega" loans may run as high as $60,000 with 15 years to repay. Institutions with significant assets are financing their own programs.

Two other payment variations also come to mind. One is the use of differential pricing based on institutional costs, program costs, market preferences, as well as the institutions desire to attract a particular kind of student. The other is discounting published tuition rates. This can also be done in the form of rebating , particularly to encourage the desired results, such as the completion of a degree within a specified time period or achievement of a particular level of academic performance.

An offshoot of this last method is that a college could offer a student a loan which would have to be repaid with the stipulation that if the student maintained a certain grade point average during his/her four years that the loan would be changed to a grant or paid by the college.

CHAPTER XI
TIPS AS YOUR CHILD NEARS COLLEGE AGE

There are several relatively simple maneuvers to reduce reported income before completing the financial aid form.

Establishing an IRA, even under the new tax laws, will reduce reported income. Self employed workers can establish a Keogh plan. Tax sheltered annuities for teachers and some other workers in non-profit jobs are an excellent tax shelter. Current Year IRA's are counted on the FAF but previous years do not count. Higher priced colleges may ask on their own financial aid application about previous years IRAs and use a portion of them toward family contribution. Upper income families screen their securities to determine the most advantageous time for taking capital gains and losses. Generally the gains should be taken before the child is a senior in high school or later, after the child graduates. If a family has earned interest on a savings account or a money market fund, it is taxed at the end of the year. However, if these assets are switched at the end of the year to Bank Certificates, Treasury Bills or Corporate Bonds the requirement to report these earnings as income can be shifted from one year to another.

Everything discussed in this book is designed to enlighten parents and children on the necessity of planning. Every child who is academically qualified deserves the chance to go to college. College graduates earn 40% more in their lifetime than non-college graduates. Modern technology is requiring that our students receive the best possible education in technically oriented fields. We know that financial aid is slowly drying up. It is important to be prepared for that eventuality. Financial planning is no

longer just for retirement and estate planning. We must begin saving and planning when the children are born to be able to offer them the education they will need to succeed in the world of tomorrow.